

A decorative graphic on the left side of the page consists of a thick, wavy, light gray line that curves downwards from the top left towards the bottom left. At the end of this line is a large, solid black five-pointed star.

The Democratic Budget Plan

Democrats build on a record of fiscal responsibility. In 1993, America faced growing deficits and mounting government debt. Democrats addressed this challenge head on, restoring fiscal strength and sparking a record investment-led economic expansion.

- **The challenge in 1993.** In 1993, the deficit was a record \$290 billion. In January 1993, the Congressional Budget Office (CBO) projected that it would rise to \$404 billion in 1999. Debt held by the public grew to a size greater than 50 percent of the size of the entire economy, and CBO projected that it would rise to nearly 80 percent of the economy by 2003.
- **Restoring fiscal strength.** In 1993, without a single Republican vote, Congress enacted President Clinton's first budget, cutting the deficit by \$500 billion in the first five years alone. Again in 1997, on a bipartisan basis, Congress enacted the *Balanced Budget Act*, estimated to cut the deficit by another \$250 billion (net of tax cuts) in the first five years. By the end of FY 1999, the cumulative actual deficits since 1993 will have proven \$1.7 trillion smaller than CBO projected in January of 1993.
- **Record economic expansion.** This responsible fiscal policy has fueled the longest peacetime expansion in recent history. Since January 1993, the economy has grown an average of 3.5 percent per year and grew a strong 4.3 percent in the first quarter of 1999—compared to 2.4 percent per year during the Reagan-Bush years. Inflation is at its lowest level since 1959—the GDP price index rose at a 1.0 percent annual rate in 1998. Unemployment fell from 7.5 percent in 1992 to 4.3 percent last month—the lowest rate in 29 years.
- **Historic opportunity.** Now, CBO projects that the overall surplus for 1999 will be \$120 billion—the largest surplus ever in dollar terms and the largest surplus since 1951 as a percentage of the economy. This marks the seventh straight year of improved fiscal balance—the longest such period in history. Since March 1997, the Treasury has paid down more than \$155 billion in publicly-held debt. CBO also projects a total surplus of \$161 billion for FY 2000—including a surplus of \$14 billion excluding the Social Security Trust Funds.

- **A responsible plan for the future.** Democrats have a responsible plan for continued prosperity. Democrats would save Social Security first, ensuring that every cent of Social Security surplus would be locked away for debt reduction. We would strengthen, protect, and modernize Medicare, locking away further debt reduction and providing for a needed prescription drug benefit. We would ensure that we have the resources to meet our requirements for military readiness and domestic priorities like education, environmental cleanup, and the needs of our farmers and veterans. And we could do all this while still providing broad-based tax relief for working Americans.

Saving Social Security first. Our Nation stands at a fiscal crossroads. Either we will address the challenges posed by the retirement of the baby boom generation through greater debt reduction and national saving, or we will squander, on consumption in the present day, the resources that we could use to solve these problems.

- **The challenge of the century.** The number of Social Security beneficiaries is growing dramatically, increasing 37 percent between 1999 and 2015. By 2014, Social Security payroll taxes no longer will be sufficient to cover monthly payments. By 2034, the Trust Fund will be exhausted, and unless we take steps to address the challenge, Social Security will be unable to pay the full benefits that America has promised its older citizens.
- **Taking Social Security off budget.** Democrats led the effort to take Social Security out of the budget and to end the practice of using Social Security surpluses to mask the size of the budget deficit. This effort has contributed to our current situation: Budget projections now show that we will have balanced the budget, excluding Social Security, in FY 2000.
- **Dedicating Social Security surpluses to debt reduction.** Democrats seek to devote Social Security surpluses entirely to paying down the debt, and have fought to offer amendments to close the trap door in the Republican “lock box” that would allow using Social Security surpluses for purposes other than Social Security.
- **Increasing national savings.** By ensuring that the government actually does run projected Social Security surpluses, and employing them for debt reduction, we will ensure that we boost national saving—the key to preparing the Nation for the retirement of the baby boom generation. Higher national saving leads to lower interest rates, a larger capital stock, a more productive workforce, a higher standard of living, and an enhanced ability to finance current Social Security and Medicare obligations.

- **First things first.** Beyond simply safeguarding the Social Security surplus, Democrats believe we should not spend the non-Social Security budget surplus until we have substantially extended the solvency of Social Security and Medicare. Facing this historic fiscal and demographic challenge, we should not allocate our budget surpluses until we have met our responsibilities to the future.

Strengthening, protecting, and modernizing Medicare. Medicare faces demographic and fiscal pressures even more pressing than those facing Social Security. Just as we work to protect Social Security, we also must extend Medicare solvency, introduce new efficiencies to the program, and provide a much-needed prescription drug benefit.

- **The challenge for Medicare.** The number of Medicare beneficiaries will increase by over one-third by 2015, from under 40 million now to 53.5 million in 2015. The number of beneficiaries will roughly double over the next 30 years.
- **Reserving budget surplus funds for Medicare.** Democrats believe that we should reserve one-third of the budget surplus (excluding Social Security) for Medicare. These funds should be available to strengthen and modernize Medicare, including legislation providing a prescription drug benefit and significantly extending the solvency of the Medicare Hospital Insurance Trust Fund.
- **Providing needed prescription drugs.** Despite the indisputable importance of prescription drugs to health care today, Medicare does not explicitly cover outpatient prescription drugs. As a consequence, nearly 15 million Medicare beneficiaries lack drug coverage altogether. Millions more have retiree health coverage, which is declining; Medigap, which is unstable and increasingly expensive; Medicaid, which restricts eligibility to the lowest income seniors and people with disabilities; or Medicare managed care plans, which are restricting their extra benefits, including prescription drugs. As a result, three-quarters of older Americans lack decent, dependable, private sector coverage of prescription drugs. Democrats see the need for a minimum, national drug benefit option for all Medicare beneficiaries.
- **Taking action to scale back provider payment reductions.** The *Balanced Budget Act of 1997* (BBA) included important changes to Medicare payment policies that have contributed to restraining cost growth through 2002 and extending the life of the Medicare Trust Fund through 2015. Some of the BBA policy changes, however, may have unintended consequences. Democrats recognize the need to adjust some of the BBA policies and to moderate the impact of the BBA on some health care providers' ability to deliver quality services to beneficiaries.

Democrats protect domestic priorities. To protect key priorities from massive cuts, Democrats set aside an additional third of the non-Social Security surplus. This will allow for continued investments in education, law enforcement, environmental cleanup, veterans' health and military readiness, for which the Republican budget leaves no room.

Tax relief for working Americans. The Democratic budget plan demonstrates that it is possible to set aside the entire Social Security surplus for Social Security and still strengthen Social Security and Medicare, provide for military readiness, and fund investments in education, veterans, environment, and crime-fighting efforts, while still providing a fair and substantial tax cut. The Senate Democratic alternative includes the following tax cuts.

- **Broad-based tax relief.** The Democratic plan would increase the standard deduction by \$4,350 for joint filers, \$2,150 for heads of household, and \$1,300 for single filers; and increase the phase-out levels for married Earned Income Tax Credit (EITC) recipients. The Democratic plan would also:
 - simplify filing for more than 12 million taxpayers—it removes more than three million taxpayers from the tax rolls and allows an estimated nine million more to claim the standard deduction;
 - increase the standard deduction by more than 60 percent for married couples, more than 34 percent for single parents, and more than 30 percent for individuals; and
 - reduce the tax burden for more than 73 percent of taxpayers.
- **Marriage penalty relief.** Our increase in the standard deduction provides marriage penalty relief for non-itemizers, and we also provide an itemized deduction equal to the lesser of \$4,350 or 20 percent of the lower earning spouse's earned income for taxpayers with incomes less than \$95,000.
- **More affordable and accessible health insurance.** The Democratic alternative would allow 100 percent deductibility of health insurance costs for self-employed individuals; include a 30 percent tax credit for individuals without employer-sponsored plans; and provide tax breaks for long-term care costs.
- **Modernize public schools and make college more accessible.** The Democratic plan would provide \$24 billion in public school modernization bonds; eliminate tax on savings for college; and permanently extend employer-provided tuition assistance for higher education.

- **Promote savings and strengthen pensions.** The Democratic alternative would offer small businesses a tax credit to start pension plans; permit portability of savings from one job to another; and increase protection of assets.
- **Encourage conservation and urban revitalization.** Our budget plan would create a capital gains incentive for conservation; give tax incentives for alternative fuels and alternative fuel vehicles; increase public transportation benefits; and promote land and endangered species conservation, urban revitalization, and waste utilization.
- **Tax relief for farmers.** The Democratic plan would establish tax-deferred risk management accounts; increase the volume cap for agriculture bonds; and give farmers the full advantage of the \$500,000 capital gains tax break by extending it to farmland.
- **Small business tax relief.** The Democratic alternative would accelerate the increase in small business expensing to \$25,000; allow 100 percent deductibility for self-employed health insurance; and give small business pension incentives.